

THE YEAR'S HIGHLIGHTS

Net income in 1984 was \$13.1 million.

Participation in 18 frontier oil and gas wells with six discoveries and two successful step-out wells; three wells were still drilling at year-end.

Participation in 18 exploratory wells in Ontario with nine oil discoveries.

Participation in 33 exploratory wells in western Canada with 11 oil and seven gas discoveries.

Five new energy technology investments with private sector partners.

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PRESIDENT'S REPORT

Ontario Energy Corporation (OEC) continued its strong performance in 1984 with net income of \$13.1 million, 12.6 per cent higher than 1983.

The Corporation currently has 24 investments, of which 23 are with private sector partners. Of these, 17 are energy technology investments while seven involve oil and gas exploration. Five new technology investments were made in 1984.

Continued emphasis on cost controls resulted in net operating expenses being 15 per cent under budget. The Corporation had 18 full-time staff in 1984, down from 23 in 1983.

OIL AND GAS EXPLORATION

The Corporation's subsidiary, Onexco Oil & Gas Ltd., had significant success during the year with its oil and gas joint ventures in Ontario and Western Canada. In all, Onexco participated in 51 exploratory wells which resulted in 20 oil and seven gas discoveries.

Likewise, Trillium Exploration Corporation had a highly successful 1984 frontier exploration program, participating in 18 wells, with six discoveries and two successful delineation wells; three wells were still drilling at year-end. Since its inception in late 1982, Trillium has been involved in nine hydrocarbon discoveries.

Current plans call for Trillium to participate in up to 18 wells during 1985.

SUNCOR

In June, Suncor successfully completed the construction and start-up of the hydrocracker unit at its Sarnia refinery. This project, which will enhance the company's future financial performance, generated significant direct industrial benefits for Ontario. Suncor continued to show strong financial growth during 1984, posting a net income of \$123.7 million for the year, up eight per cent over 1983. During the year, OEC received \$10.4 million in dividends from Suncor.

ENERGY TECHNOLOGY

Ontario Energy Ventures Limited (OEV), the Corporation's venture capital subsidiary, invested with private sector partners in five new technology ventures during the past year. These included investments in a new energy conservation fibre, a highly efficient windpump, a high-efficiency oil furnace, an energy from waste joint venture, and in enhanced oil recovery (EOR) technology. This brings to 17 the Corporation's venture capital investments in energy technology.

OEV continued to concentrate on energy from waste, energy management, enhanced oil recovery technology, substitution and transportation investments.

Two of OEV's investments - Teleride and Sage - are now acknowledged to be leaders in computer technology for the transit industry in North America.

ENERGY AND INDUSTRIAL BENEFITS

The energy sector is a key component of Canada's economic growth and Ontario is a major beneficiary of investment in this sector. For example, the construction of the hydrocracker at Suncor's Sarnia refinery created 1,000 construction jobs at peak and 100 new operating positions. In addition, 185 Canadian companies, 160 of which are in Ontario, received contracts for goods and services. The hydrocracker reduces crude oil feedstocks and effectively saves nine million barrels of crude oil per year.

Oil and gas investment in western Canada also generates significant economic benefits for Ontario. A recent study conducted for the Independent Petroleum Association of Canada concluded that 33 per cent of the benefits from oil and gas investment accrues to central Canada.

CHANGES TO BOARD

During the year, Mr. Philip Lind resigned from the OEC Board of Directors. The Board expressed its appreciation to Mr. Lind for his advice and counsel.

The Board also wishes to express its appreciation to the Corporation's dedicated staff. Over the past four years, the productivity of the Corporation has increased significantly as a direct result of their untiring efforts.

Respectfully submitted on behalf of the Board:

Malcolm Rowan

Malcolm Rowan,
President and Chief Executive Officer

BOARD OF DIRECTORS

David L. Campbell

*President,
David L. Campbell Ltd., Consultant*

Pierre Genest, Q.C.*

*Senior Partner,
Cassels, Brock & Blackwell,
Barristers and Solicitors*

George C. Hitchman**

Corporate Director

W. Edwin Jarmain*

*President,
Jarmain Communications Inc.*

M. Theresa McLeod**

*Vice President and Director,
Merrill Lynch Canada Inc.*

David Melnik, Q.C.**

*President and Chief Executive Officer,
Vanguard Trust*

Gerald E. Nori, Q.C.

*Partner,
Wishart, Noble, Barristers and Solicitors*

Malcolm Rowan*

*President and Chief Executive Officer,
Ontario Energy Corporation*

* Also a Director of Suncor

** Audit Committee

OFFICERS

W. Edwin Jarmain,
Chairman

Malcolm Rowan,
President and Chief Executive Officer

Peter Szego,
Vice President, Energy Investments

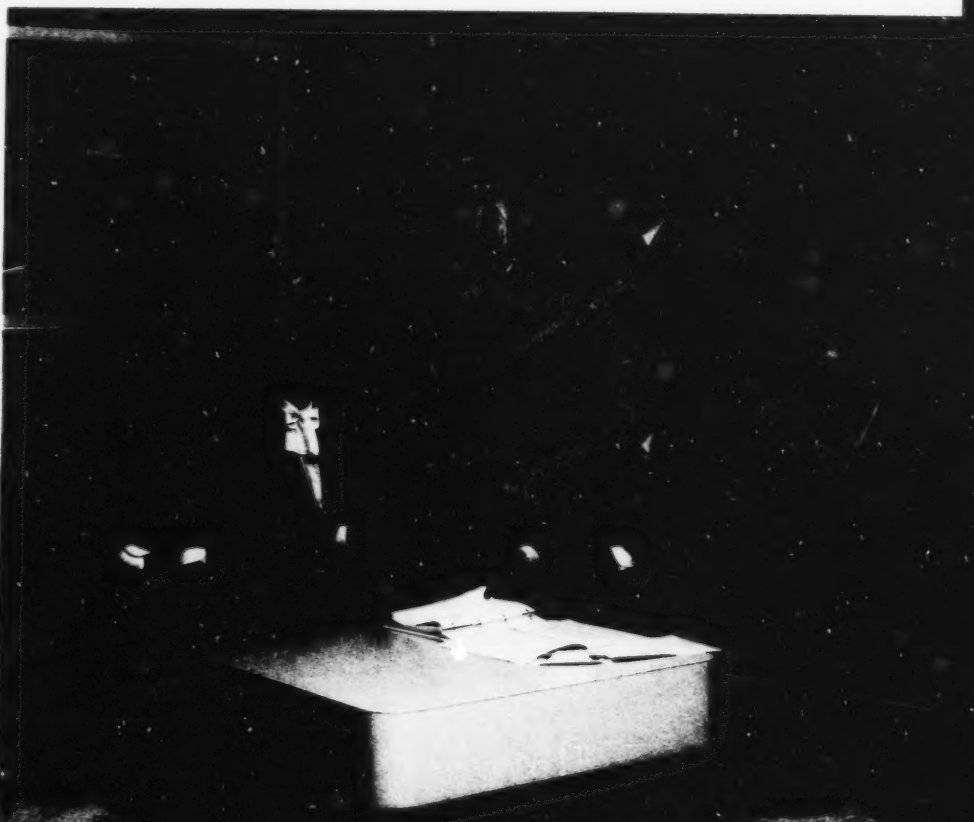
Robert Law, Q.C.,
Corporate Counsel and Secretary

Janet C. McNally,
Assistant Secretary

AUDITORS

Deloitte Haskins & Sells

*The OEC Board (left to right)
David L. Campbell, M. Theresa
McLeod, Malcolm Rowan, George
C. Hitchman, Gerald E. Nori,
W. Edwin Jarmain (Chairman),
Pierre Genest*



ENERGY OUTLOOK

The outlook for the Canadian oil industry is uncertain. Non-OPEC oil production is expected to continue to increase until around the early 1990's, at which time it is forecast that non-OPEC production will supply around 60 per cent of the world demand. Demand for OPEC oil during this period will be relatively flat. In real terms, the price of oil is expected to continue to fall through 1990.

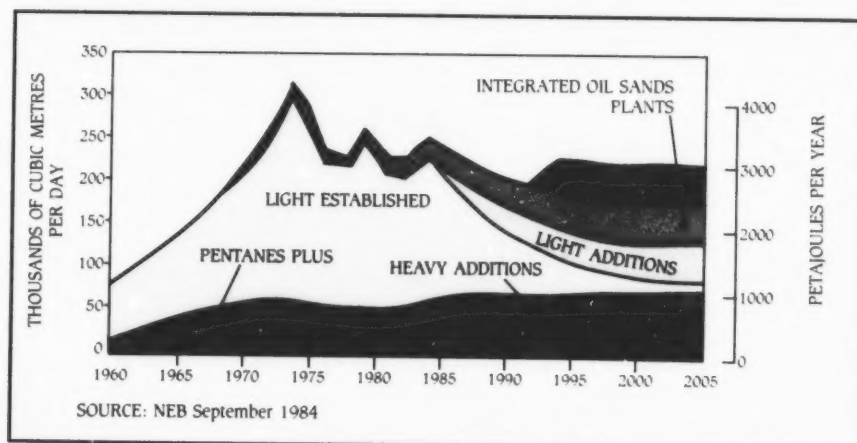
In the short term, world crude oil prices will reflect OPEC's ability to discipline itself by maintaining production quotas and avoiding price discounts. Increasing supplies of refined petroleum products from new Middle-East refineries are likely to result in added uncertainty and instability in the marketplace.

Canadian energy and fiscal policies will be challenged. The short-term oil price outlook suggests to some that Canada should rely more on offshore supplies and reduce Canadian production and incentives. Indeed, Canada's energy policy is currently undergoing a rigorous review at a time when its conventional reserves are declining rapidly. By 1995, the country is expected to require 250,000 barrels (39 745 m³) of oil a day more than it produces (about 16 per cent of its needs).

The longer-term international oil supply and price outlook, beyond 1990, suggests the need for the maintenance of a strong indigenous Canadian petroleum industry based on active development of conventional oil, oil sands and heavy oil, and frontier oil reserves. By 1995, OPEC producers are expected to increase their share of the world market to 48 per cent, giving them greater opportunity to control prices.

The charts below set out the oil supply issues facing Canada in the years ahead.

Production History and Projected Productive Capacity of Crude Oil and Equivalent (Canada)



Canadian Oil Supply Demand

	(thousand barrels per day)		
	1985	1995	2000
Demand²	1,420	1,580	1,734
Base Supply			
Light conventional	1,085	603	465
Heavy oil	229	170	161
Synthetic - existing	157	157	157
Bitumen	44	157	189
Less - heavy oil exports ³	(173)	(227)	(250)
Total base supply	1,342	860	722
Deficit on Base Supply	(78)	(720)	(1,012)
New Supply			
Frontier	-	276	276
Synthetic - new	-	85	126
Heavy oil upgraders	-	45	45
Total new supply	-	406	447
Demand Shortfall	(78)	(314)	(565)

Notes:

1. NEB (September 1984) unless otherwise noted.
2. Recent EMR estimates.
3. Domestic demand deemed to be 100,000 barrels per day.

OIL AND GAS EXPLORATION

ONEXCO OIL & GAS LTD.

During 1984, Onexco Oil & Gas Ltd. undertook an active exploration and development program in Canada's frontier regions, through Trillium Exploration Corporation, and in western Canada and southwestern Ontario, in joint ventures with private sector oil and gas companies. Production at year-end was 50 barrels (8 m³) of oil per day and 400,000 cubic feet (11 270 m³) of natural gas per day. Oil production increased to 235 barrels per day during the first quarter of 1985.

FRONTIER

Trillium Exploration Corporation

Trillium, a joint exploration corporation, was formed in 1982 and is owned by Onexco Oil & Gas Ltd. (66.67 per cent) and by Suncor Inc. (33.33 per cent).

During 1984, Trillium participated in 18 wells which resulted in six new discoveries, two successful delineation wells, seven dry holes and three wells (Nipterk L-19, Amerk O-09 and Albatross B-13) drilling at year-end.

In addition, through its investment in Panarctic Oils Ltd., Trillium also participated in two offshore wells in the Arctic Islands: Skate C-59, an oil and gas discovery, and Cisco M-22 which was plugged and abandoned.

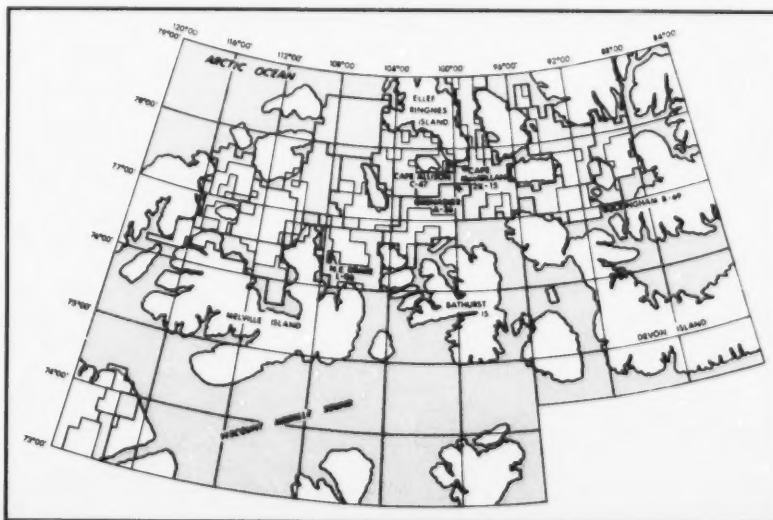
Area	Date	Trillium's Working Interest	Well Operator	Test Results (Maximum Flow Rates)
Beaufort Sea/Mackenzie Delta				
West Tuk M-09	May 1984	2.4%	Esso/Home	924 bbl/d*; 17.4 Mmcf/d
Kadluk O-17	Apr 1984	3.0%	Esso/Home	14.5 Mmcf/d
Adgo H-29	Jan 1985	18.0%	Esso/Home	837 bbl/d; 21.6 Mmcf/d
Offshore Newfoundland				
Terra Nova K-08	Jul 1984	5.0%	Petro-Canada	5,200 bbl/d; 4.0 Mmcf/d
Beothuk M-05	Jan 1985	5.0%	Canterra	1,432 bbl/d
Offshore Nova Scotia				
Uniake G-72	Apr 1984	3.0%	Shell	147 bbl/d*; 20.6 Mmcf/d
Alma F-67	Jul 1984	4.0%	Shell	373 bbl/d*; 29.9 Mmcf/d
Arctic Islands				
Skate C-59	Jul 1984	**	Panarctic	172 bbl/d; 16.3 Mmcf/d

* Condensate

** Through Panarctic share purchase

ARCTIC ISLANDS

Suncor Inc.: Through a farm-in agreement with Suncor in the Arctic Islands offshore, Trillium has an 11.05 per cent interest in the Panarctic-operated Buckingham O-68, a well spudded in 1983 and completed in 1984. Buckingham had oil shows which were not considered commercial. Two offshore wells are planned for the Arctic Islands in 1985: Cape Allison C-47 and North East Drake L-06. In addition, one onshore well will be drilled at Lougheed Island.



K. Wayne Brush, Vice President

Trillium's 1984 Successful Wells

Arctic Islands

Trillium Interest Acreage

□ Panarctic Suncor et al

○ 1984 drilling locations

— E.A. Boundary



West Tuk M-09 gas and condensate discovery, Beaufort Sea/Mackenzie Delta Region. (Courtesy Esso Resources Canada Ltd.)

- Beaufort Sea
Mackenzie Delta Region
Trillium Interest Acreage
- Esso-Exploration Project
 - Esso-Adgo significant discovery area
 - Suncor-Gulf pool acreage
 - Chevron acreage
 - 1984 drilling locations

Panarctic Equity Participation: In 1984, Trillium completed a flow-through share agreement to purchase a five per cent equity interest in Panarctic Oils Ltd. During the 1983/1984 drilling season Trillium, through its interest in Panarctic, was involved in the Skate C-59 gas and oil delineation well and the Cisco M-22 delineation well. Skate C-59 flowed gas at rates up to 16.3 million cubic feet (459 000 m³) per day and oil at rates up to 172 barrels (27 m³) per day. The Cisco M-22 well was plugged and abandoned as a dry hole.

The latest estimate puts Panarctic's reserves at 492 million barrels (78 million m³) of oil, 60 million barrels (9.5 million m³) of natural gas liquids and 17.4 trillion cubic feet (0.5 trillion m³) of natural gas.

BEAUFORT SEA/MACKENZIE DELTA

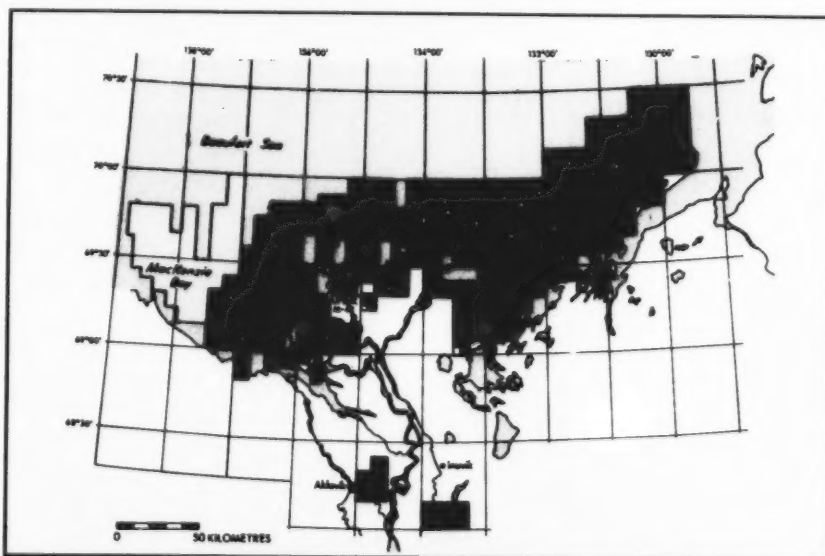
Esso Resources Canada Ltd. - Beaufort Exploration Project: West Tuk M-09, Kadluk O-07 and Nuna A-10 commenced drilling in 1983 and were completed in 1984. West Tuk M-09, in which Trillium has a 2.44 per cent working interest, flowed gas at rates up to 17.46 million cubic feet (492 000 m³) per day and condensate up to 924 barrels (148 m³) per day. Kadluk O-07, in which Trillium has a 3.0 per cent working interest, flowed gas at rates up to 14.5 million cubic feet (409 000 m³) per day. Nuna A-10 did not have hydrocarbon shows.

During 1984, two additional offshore wells were started: Amerk O-09 located 30 miles (18.6 kilometres) offshore and Nipterk L-19 located 50 miles (31 kilometres) to the west of Amerk. Plans have also been finalized for two onshore exploratory locations: Itriklek B-52 and West Taglu H-06. A delineation well West Tuk J-29 will begin drilling in early 1985.

Esso Resources Canada Ltd. - Adgo Delineation Project: During 1984, Esso/Trillium Adgo H-29 was drilled, a step-out delineation well on the Adgo structure. Adgo H-29 flowed gas at rates up to 21.61 million cubic feet (609 000 m³) per day and oil at 837 barrels (133 m³) per day. A further delineation well is planned in 1985. Trillium has an 18 per cent working interest in the Adgo structure.

Chevron Resources Canada Ltd. - Upluk/Ellice/Russel Projects: During 1984, Trillium successfully concluded farm-in negotiations with Chevron to explore their three Exploration Agreement areas in the Mackenzie Delta and on the Tuktoyuktuk Peninsula. Plans have been finalized for the acquisition of seismic data and the drilling of the first well, Chevron/Trillium Upluk L-42, adjacent to the Garry oil and gas discovery. The seismic programs commenced in January 1985 and the well is expected to start during the first quarter of 1985.

In the western Beaufort Sea, Trillium was involved in acquiring a seismic program with Suncor-Gulf in an area covering some 985,000 acres (399 000 hectares).

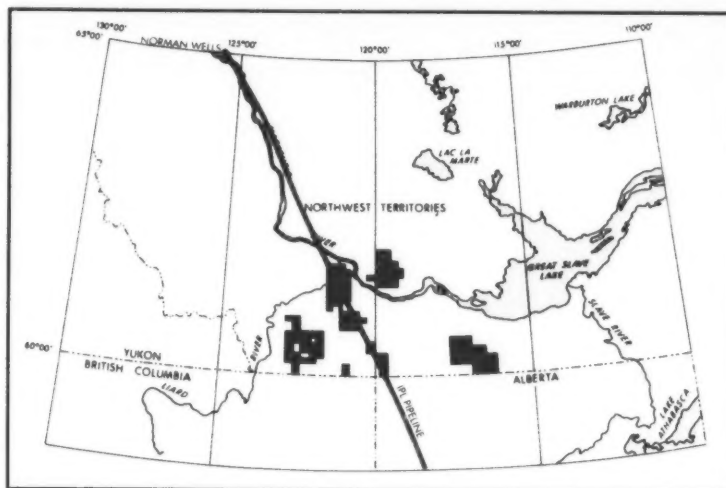


Northwest Territories
Trillium Interest Acreage

■ Pex / Westcoast / Trillium

NORTHWEST TERRITORIES

During 1984, Trillium started negotiations with Petro-Canada to participate in exploration in the Northwest Territories on approximately 4,288,000 acres (1 736 000 hectares) of land. Seismic will be undertaken during 1985 followed by a three well drilling program in 1986 and 1987.



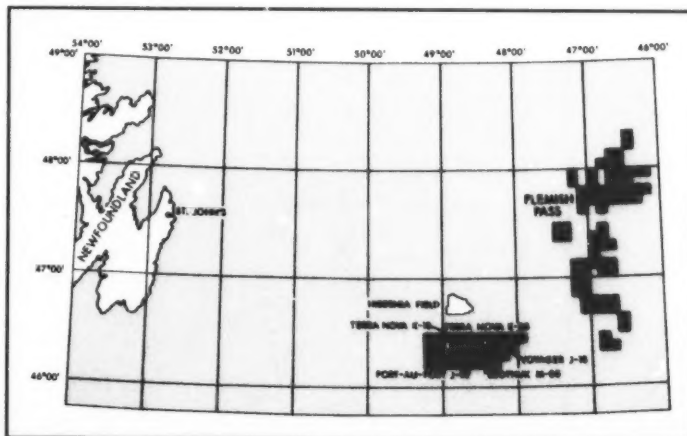
OFFSHORE NEWFOUNDLAND

Petro-Canada – Terra Nova: Trillium's offshore Newfoundland program made a significant discovery at Terra Nova K-08 in 1984. Located 20 miles (32 kilometres) southeast of the Hibernia oil field, the Terra Nova K-08 cumulative flow rate from four zones was 11,200 barrels (1 781 m³) per day with gas flowing at rates varying up to four million cubic feet (113 000 m³) per day. Trillium has a five per cent interest in Terra Nova K-08. With these encouraging results, four additional wells were drilled in the Terra Nova area: Terra Nova K-18, Voyageur J-18, Port-au-Port J-97 and Beothuk M-05. The Terra Nova K-18 well was a non-commercial oil well and the Voyageur J-18 well did not warrant testing. The Beothuk M-05 well, yielded oil with the highest single flow rate at 1,432 barrels (228 m³) per day. The Port-au-Port J-97 well was dry. Trillium holds a five per cent interest in these wells, except Voyageur J-18 in which Trillium holds a 1.25 per cent interest.

Esso Resources Canada Ltd. – Flemish Pass Basin: Trillium concluded an agreement with Esso Resources Canada Ltd. on approximately 2.2 million acres (890 000 hectares) in the Flemish Pass Basin. A seismic program was completed during 1984 and one well is planned for 1985 with a second in 1986. After completion of the earning program, Trillium will hold an eight per cent working interest in this area.

Offshore Newfoundland
Trillium Interest Acreage

- Pex / Trillium et al
- Esso / Trillium et al
- 1984 drilling locations

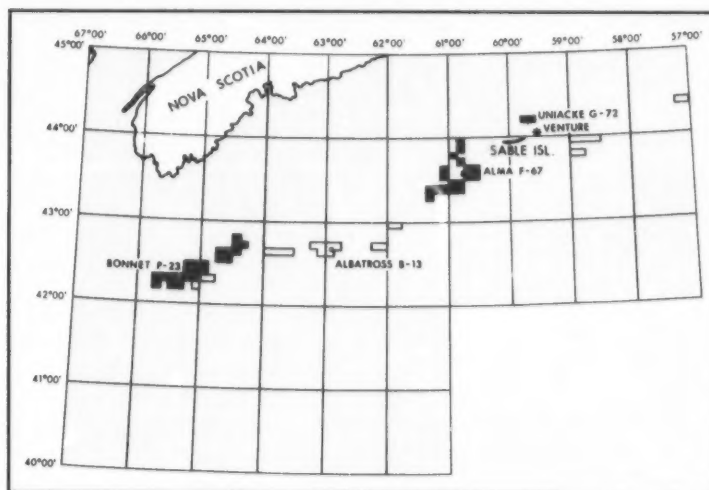


*Offshore Nova Scotia
Trillium Interest Acreage*

- Shell / Canterra
- Shell / Pex
- Shell / Pex Suncor et al
- 1984 drilling location

OFFSHORE NOVA SCOTIA

Trillium participated in three wells offshore Nova Scotia during the 1984 season: Uniacke G-72, Alma F-67 with Shell as operator and Bonnet P-23 operated by Petro-Canada. Uniacke G-72 and Alma F-67 are both gas and condensate discoveries. Uniacke G-72 flowed gas at rates up to 20.6 million cubic feet (580 000 m³) per day with condensate up to 147.3 barrels (23 m³) per day. Trillium has a three per cent interest in this well. The Alma F-67 well flowed gas at rates up to 29.87 million cubic feet (842 000 m³) per day with 373 barrels (59 m³) per day of condensate. Trillium has a four per cent interest in this well. Bonnet P-23 did not encounter hydrocarbons. Albatross B-13, a well operated by Petro-Canada, located 170 miles (274 kilometres) southwest of Sable Island, started drilling in December 1984 and will be completed in 1985. The 1985 program will include one delineation well offsetting the Alma F-67 discovery.



LABRADOR SHELF

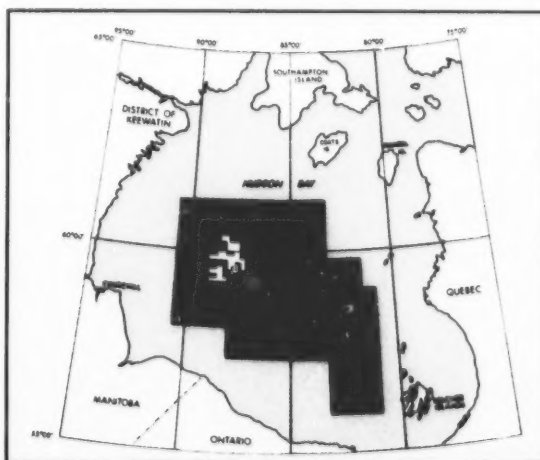
No new work was carried out in the exploration of this area.

Hudson Bay

The Hudson Bay joint venture was restructured in 1984 with the resulting interests in the Exploration Agreement: Onexco 22.5 per cent, Trillium 22.5 per cent, Sogepet/Soquip 45.0 per cent, Canadian Occidental Petroleum Ltd. 10.0 per cent. At year-end, planning was in progress for drilling in 1985. In addition, discussions were underway with Canterra Energy Ltd. and ICG Resources Ltd. on participation in the program. Farm-in arrangements were subsequently concluded in March 1985.

*Hudson Bay
Onexco Interest Acreage*

- Onexco / Trillium et al



Exploratory drilling in southern Alberta. (Courtesy of Triweb Resources Ltd.)

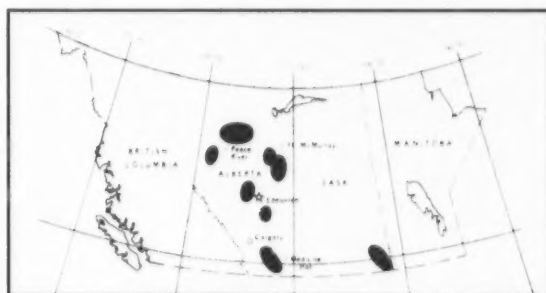


WESTERN CANADA

The company is participating with Mannville Oil & Gas Ltd. and Triweb Resources Ltd. (formerly L.K. Oil & Gas Ltd.) in oil and gas exploration in northeastern British Columbia, northern and southern Alberta, and the eastern and central portions of Saskatchewan. During 1984, a total of 33 exploratory wells were drilled, with 11 completed as oil discoveries and seven as gas discoveries.

Western Canada

■ Onexco Oil & Gas Ltd. exploration programs



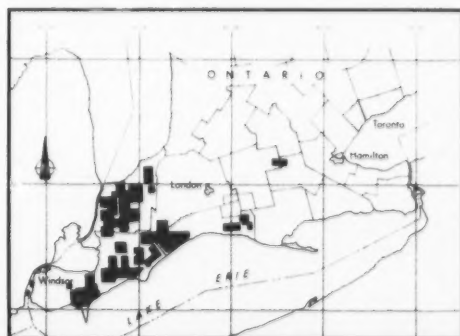
ONTARIO

During 1984, Onexco continued its participation in a joint venture exploration program with Consumers' Gas Company Ltd. on lands in southern Ontario. A total of 18 wells were drilled, of which nine were completed as oil discoveries.

Since 1982, Onexco has also been part of an exploration joint venture with Canadian Occidental Ltd. and Petro-Canada in southwestern Ontario. No exploration was undertaken by the group during 1984.

Ontario

■ Onexco Oil & Gas joint interest lands



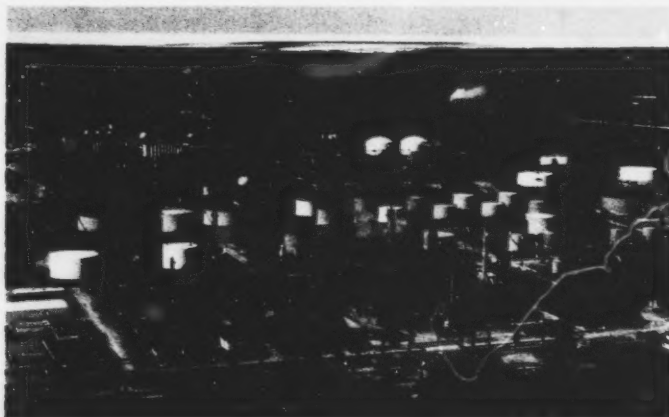
ONTARIO ENERGY RESOURCES LTD. (OERL)

Ontario Energy Resources Ltd. holds the Ontario government's 25 per cent interest in Suncor Inc. Suncor continued to show strong performance in 1984 as earnings rose eight per cent over 1983, from \$114.3 million to \$123.7 million.

During 1984, investments were made which will strengthen Suncor's long-term profit potential. Production at the Fort McMurray oil sands plant was stable throughout the year and, in December, Suncor announced plans to invest an additional \$500 million over the next five years to further improve productive capacity and reliability. In order to expand its hydrocarbon resource base, in 1984 Suncor substantially increased its investment in exploration and development activity in Western Canada. This pace of development will be further accelerated in 1985.

In June 1984, Suncor's Sarnia refinery upgrading project was completed, ahead of schedule and under budget. The new hydrocracker complex makes the Sarnia facility one of the most flexible and efficient in the country and increases the profit potential of the company's downstream operations. In addition, the project created over 1,000 jobs when construction was at its peak and 100 new operating positions. Between 1982 and 1984, 160 Ontario companies received supply and service contracts, with a total value over \$100 million.

Overview of Suncor's refinery in Sarnia, Ontario. (Courtesy of Suncor Inc.)



ONEXCO MINERALS LTD.

Onexco Minerals Ltd. is a wholly-owned subsidiary involved in minerals exploration in Ontario. Onexco Minerals completed a three-year lignite exploration program in the James Bay Lowlands in 1983 and received a licence extension for an additional three years. Although Onexco Minerals did not undertake field activity during 1984, it continued to monitor new lignite mining and processing technologies which may be applicable to the commercial development of the deposit.



Peter Szego, Vice President

ONTARIO ENERGY VENTURES LIMITED (OEV)

During 1984, OEV invested, along with private sector partners, in five new energy technology ventures. This brought the number of technology investments in OEV's portfolio to 17.

Most of these investments are in their start-up phase. Each investment, however, can be placed in one of five areas of investment emphasis:

- energy from waste,
- energy management,
- enhanced oil recovery technology,
- substitution, and
- transportation.

ENERGY FROM WASTE

OEV has five energy from waste (EFW) investments. Over the past few years, OEV has dedicated a major effort to promoting new approaches to waste management, complementing the initiatives of the Ontario Ministries of Energy and the Environment.

More specifically, OEV's EFW investments are:

Endwaste: In a joint venture with Tricil Limited, OEV formed Endwaste to invest in new energy from waste plants which support the recycling, reduction, re-use and recovery of solid waste in Ontario.

Hamilton Garbage Electric Generator: Also a joint venture with Tricil Limited, OEV invested in a steam-driven turbo-electrical generator at the Solid Waste Reduction Unit (SWARU) facility in Hamilton.

The turbine is designed to produce 14 million kilowatt hours of electricity annually from the burning of about 400 tons (363 tonnes) of garbage daily, enough to heat 620 to 875 homes in the Hamilton area.

Energreen: This investment concentrates on the commercial application of waste heat in horticulture.

Energreen Enterprises Inc. operates a 1.4-acre (0.57-hectare) greenhouse near Ramore in northern Ontario, heated by hot exhaust gases from a nearby TransCanada PipeLines natural gas pumping station.

In 1984, seven million tree seedlings were grown for the Ministry of Natural Resources' reforestation program. In addition, the company produced 1,000 pounds (454.5 kilograms) of tomatoes a week during part of the year. In 1984, a 0.5-acre (0.2-hectare) expansion of the greenhouse was started so that the facility can diversify into other crop areas.

Energreen's greenhouses (foreground) and tree holding area (background).



Omnifuel: Omnifuel engineers complex systems using fluidized bed gasifiers to produce alternate fuels from forest and agricultural residues and municipal waste.

ENERGY MANAGEMENT

OEV has four energy conservation-oriented investments. These include:

Petrosave: Petrosave Inc. is Ontario's leading supplier of Thermal Management Services (TMS) and has \$2 million worth of annual energy budgets under contract with the municipalities of Mississauga and Oshawa and with Maple Leaf Gardens. Under a TMS agreement, Petrosave:

- assumes responsibility for providing a building's energy requirements;
- provides the capital for and supervises the installation of new energy-conserving equipment and modifications;
- maintains the equipment that has been installed;
- pays all energy utility bills on behalf of the building's owner.

G.K. Fleming & Associates: Fleming designs and installs computer software. In 1984, development work began on an Energy Conservation and Management System. The system is now being demonstrated in a large northern Ontario integrated pulp and paper mill. The energy savings expected with this system are considerable, having application in a wide variety of other industries.

Bishop Fibretex: Bishop is developing and marketing a new type of fibre-Biswool. Biswool has various energy-related uses, such as improved insulation for homes, refractory bricks for industrial furnaces, reinforcement in plastics used in cars and reinforcement in concrete as well as a replacement for asbestos.

Bishop also produces and markets conventional mineral wool fibre, made out of the waste slag of iron foundries, for use in insulation, ceiling tiles, and fire-proofing.

Eneroil Research: Eneroil Research Limited is a product development company specializing in energy conserving products, such as high-efficiency domestic heating equipment using oil and gas. The first product under development, a condensing unit which can be added to home oil furnaces to dramatically increase their efficiency (by up to 40 per cent), has received Canadian Standards Association approval. This furnace add-on is the first of its kind in Canada.

Eneroil Sales: Eneroil Sales Inc. markets domestic energy-conserving equipment.

ENHANCED OIL RECOVERY TECHNOLOGY

In 1984, OEV invested in chemically-enhanced oil recovery technology – an innovative method of unlocking oil from the ground.

Amerigo: Amerigo Technology Limited is a leading Canadian chemical research and development company specializing in enhanced oil recovery. Its products are applicable to both conventional and heavy oil reserves. Enhanced oil recovery can result in the production of considerable additional volumes of oil (up to 20 per cent).

In December, Amerigo concluded an agreement with Westar Petroleum Ltd. to construct and operate a \$2 million waterflood pilot project in the Dodsland Field of Saskatchewan using Amerigo EOR technology. The pilot project start-up is anticipated in early 1985.

OIL SUBSTITUTION

OEV has two oil substitution investments. These are:

Deltx Windpump: In association with Alberta Ventures Fund Limited and Abax Energy Services Ltd., OEV invested in Deltx Windpump Corporation to assist this company to commercialize a new type of wind-powered water pump.

Opposite – Deltx Windpump 50, capable of pumping 24,000 gallons (109 000 litres) of water per minute. (Courtesy of Deltx Windpump Corporation.)



Polar Gas: Since 1975, OEC has participated with TransCanada PipeLines Ltd. (the project manager), Panarctic Oils Ltd., Tenneco Energy Ltd. and Petro-Canada in the Polar Gas Project.

In June 1984, Polar Gas filed applications with the National Energy Board and the Department of Indian Affairs and Northern Development to build a natural gas pipeline from the Mackenzie Delta area to a point near Edson, Alberta. It is anticipated that regulatory reviews will be undertaken during 1985. If the necessary approvals are obtained, construction could begin as early as 1986 with natural gas flow beginning in 1991.

In addition to connecting frontier natural gas supplies for future use by Canadians, the project will generate significant industrial benefits for Canada and Ontario. The estimated capital cost of the 1,333-mile (2 150-kilometre), 36-inch (92-centimetre) diameter pipeline is \$3.2 billion (1984 dollars). It is expected that 90 per cent (\$2.9 billion) of the investment will be spent on Canadian goods and services. A significant share of these expenditures will be made in Ontario.

TRANSPORTATION

OEV has four transportation investments. These include:

Ontario Van Pool Organization (OVPO): The OVPO fleet consists of 33 12-passenger vans providing a commuter vanpool service across the province. Its objective is to demonstrate and evaluate the commercial viability of third-party vanpooling. It is expected that the demonstration will be complete in 1985.

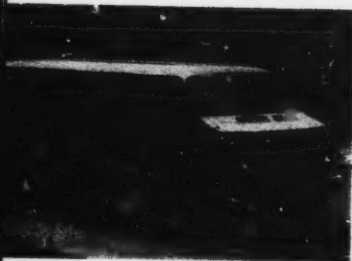
Teleride/Sage: Both Teleride Corporation and Sage Transportation Management Systems Limited design and install computer software for the public transit industry. The objective of their systems is to increase and improve transit ridership, which benefits the transit company as well as conserves energy.

Selachii: Selachii International Limited has developed and is testing an alternative to conventional carburation for internal combustion engines. The Selachii Controlled Pressure Induction (CPI) fuel delivery system has the potential to reduce fuel consumption by four to eight per cent while significantly increasing engine performance. The CPI can also be used with various alternative fuels, including gas/alcohol mixtures.

The company carried out extensive laboratory testing of the Selachii Mark II prototype (suitable for non-automotive applications) in 1984 and will complete the final field testing early in 1985.

OTHER

Bio-hol: Bio-hol is a joint venture between OEV and Weston Energy Resources Ltd. Its objective is to demonstrate the production of fuel-grade ethanol from wood residues, using micro-biological fermentation techniques. Ethanol can be used as a gasoline/alcohol mixture, and could reduce Ontario's need for crude oil.



*Ontario Van Pool 12-passenger
commuter van.*

FINANCIAL STATEMENTS



PREPARATION AND REVIEW OF THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Management is also responsible for the other information in the Annual Report, which is consistent with that contained in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through an Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management and the external auditors at least twice each year to satisfy itself that management's responsibilities are being properly discharged and to review annually the financial statements.

The external auditors, Deloitte Haskins & Sells, conduct an independent examination, in accordance with generally accepted audited standards, and express their opinion on the financial statements. The auditors' examination includes a review and evaluation of the Corporation's system of internal control. Appropriate tests and other procedures are conducted to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board. The Provincial Auditor has access and reviews from time to time the working paper files of the external auditors.

AUDITORS' REPORT

TO THE SHAREHOLDER OF ONTARIO ENERGY CORPORATION

We have examined the consolidated balance sheet of Ontario Energy Corporation as at December 31, 1984 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Auditors
March 29, 1985

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1984

	1984	1983
REVENUE		
Interest	\$ 2,279	(000's) \$ 2,381
Production	529	-
	2,808	2,381
EXPENSES		
Production, operating and royalties	249	-
General and administrative	1,663	2,086
Depreciation, depletion and amortization	360	105
Interest (recovered) and bank charges	-	(1,848)
	2,272	343
INCOME BEFORE EQUITY ADJUSTMENT	536	2,038
EQUITY ADJUSTMENT IN INVESTMENTS	12,565	9,601
NET INCOME	13,101	11,639
RETAINED EARNINGS, BEGINNING OF YEAR - as previously reported	30,712	20,548
SUNCOR INC. ADJUSTMENT (Note 2)	9,475	8,000
RETAINED EARNINGS, END OF YEAR	\$53,288	\$40,187

CONSOLIDATED BALANCE SHEET

December 31, 1984

ASSETS	1984	1983
CURRENT ASSETS		
Cash, short-term deposits and accrued interest	\$ 5,034	(000's) \$ 15,532
Accounts receivable	1,512	637
Due from affiliated companies	49	27
Due from Treasurer of Ontario	-	168
	6,595	16,364
INVESTMENTS (Note 3)		
Suncor Inc.	650,670	648,004
Trillium Exploration Corporation	39,135	18,554
Polar Gas Project	18,337	17,580
Energy resource ventures	14,066	7,759
Energy technology ventures	7,700	3,751
	729,908	695,648
FIXED ASSETS	134	193
	\$736,637	\$712,205
LIABILITIES	1984	1983
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 228	(000's) \$ 312
Current portion of long-term debt	16,250	16,250
	16,478	16,562
LONG-TERM DEBT (Note 5)	585,000	601,250
	601,478	617,812
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (Note 6)	81,871	54,206
RETAINED EARNINGS	53,288	40,187
	135,159	94,393
	\$736,637	\$712,205

Approved by the Board:

Malcolm Rowan *Malcolm Rowan*
Malcolm Rowan, Director

George C. Hitchman *George C. Hitchman*
George C. Hitchman, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1984

	1984	1983
SOURCES OF WORKING CAPITAL		(000's)
Operations		
Net income	\$ 13,101	\$ 11,639
Suncor Inc. dividends	10,449	10,449
Other dividends	20	—
Items not affecting working capital		
Depletion	186	—
Amortization - Suncor Inc.	17,810	18,441
Other	174	208
Equity in earnings of investments	(30,375)	(28,042)
Loan repayment	11,365	12,735
Issue of common shares	278	—
	27,665	30,872
	39,308	43,627
USES OF WORKING CAPITAL		
Additions to fixed assets	26	37
Reduction in long-term debt	16,250	16,738
Trillium Exploration Corporation investment	20,581	12,441
Polar Gas Project investment	757	837
Energy resource ventures	6,521	4,018
Energy technology ventures	4,858	1,156
	48,993	35,227
(DECREASE) INCREASE IN WORKING CAPITAL	(9,685)	8,400
WORKING CAPITAL DEFICIENCY, BEGINNING OF YEAR	(198)	(8,598)
WORKING CAPITAL DEFICIENCY, END OF YEAR	\$ (9,883)	\$ (198)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1984

1. SIGNIFICANT ACCOUNTING POLICIES

The Ontario Energy Corporation invests in, or otherwise participates in, energy projects with a view to enhancing the availability of energy in Ontario. The Corporation's involvement in its investments is in a financing rather than an operating role.

Basis of financial statement presentation

The consolidated financial statements include the accounts of the Ontario Energy Corporation and its subsidiaries except Trillium Exploration Corporation ("Trillium"). Trillium is actively involved in an exploration program for oil and gas and its operations are not of a financial nature. Accordingly, Trillium is accounted for using the equity method because consolidating the accounts would not be more informative. Summary information describing the financial position and activities of Trillium is included in Note 3 to these financial statements. Other investments are also accounted for using the equity method.

The full-cost method of accounting is used to account for the Corporation's investments in oil and gas exploration activities.

Fixed assets

Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over a period of 60 months; leasehold improvements are amortized over the terms of the leases.

Income taxes

The Corporation and its wholly-owned direct subsidiaries and their wholly-owned direct subsidiaries are not subject to income tax so long as not less than 90 per cent of the outstanding shares of the Corporation are held directly by the Province of Ontario. All of the Corporation's outstanding shares are presently held by the Province of Ontario. Onexco Oil & Gas Ltd., which is a wholly-owned indirect subsidiary of the Corporation, is subject to income taxes.

Pension plan

The Corporation has a pension plan covering all of its eligible employees. The unfunded pension costs thereunder amount to \$148,639 and will be funded and charged to operations over a period of 15 years in amounts determined by the plan's actuaries.

2. SUNCOR INC. ADJUSTMENT

In 1984 Suncor Inc. recognized a prior period adjustment of \$37.9 million resulting from a Federal government reduction in oil sands production taxation for the years 1982 to 1984. Suncor Inc.'s earnings were increased by \$5.9 million in 1983 and \$32 million in 1982. Ontario Energy Corporation accounted for its proportionate share of Suncor Inc.'s prior period adjustment.

3. INVESTMENTS

Suncor Inc.

The Corporation owns 25 per cent of the shares of Suncor Inc. which is accounted for using the equity method. The difference between the cost of the shares and the underlying net book value of Suncor Inc., which relates primarily to oil and gas reserves, is being amortized using the unit-of-production method.

Summarized financial information of Suncor Inc. as at December 31 is as follows:

	1984	1983 (restated)
	(millions)	
Financial information		
Working capital	\$ 123	\$ 136
Total assets	\$2,386	\$2,168
Shareholders' equity		
Preferred shares	\$ 10	\$ 12
Common shares and retained earnings	1,252	1,171
	\$1,262	\$1,183
Operations		
Revenue	\$1,585	\$1,484
Net income	\$ 124	\$ 114
Dividends on common shares	\$ 42	\$ 42

Trillium Exploration Corporation

The Corporation has a two-thirds interest in Trillium which was formed to explore for oil and gas in the frontier areas of Canada; Suncor Inc., which is owned 25 per cent by the Corporation, owns the other one-third.

The following is a summary of Trillium's financial position as at December 31:

	1984	1983
Assets		
Current assets		(000's)
Investment in Panarctic Oils Ltd. at cost	\$38,486	\$25,174
Property, equipment and exploration expenditures	800	-
	27,298	10,355
	\$66,584	\$33,529
Liabilities		
Accounts payable and accrued liabilities	\$ 8,006	\$ 5,762
Shareholder advances		
Suncor Inc.	19,442	9,212
Ontario Energy Corporation	39,135	18,554
	66,583	33,528
Shareholders' equity	1	1
	\$66,584	\$33,529

Trillium has had no income or loss from operations and, because of its mandate to explore in the frontier areas, no income or loss is expected for a number of years.

Trillium is eligible for maximum Petroleum Incentives Program ("PIP") grants of 80 per cent of expenditures for the exploration for oil and gas in the frontier areas of Canada.

The Corporation has outstanding commitments to Trillium of approximately \$12 million (1985 - \$5.7 million). The funding of these commitments will be reduced by PIP grants to be received by Trillium.

Polar Gas Project

The Corporation is one of five continuing participants in the Polar Gas Project, four of whom are presently providing funds, and accordingly bears 25 per cent of the ongoing research costs. The purpose of the project is to determine the feasibility of constructing and operating facilities for the transmission of natural gas from areas in the Canadian Arctic to southern markets.

The Corporation is committed to fund its share of the Project's 1985 program amounting to \$950,000. Thereafter the Corporation is not obliged to continue to fund the Project. Should it choose not to do so its investment would be retained but its degree of interest would be diluted.

In the event a company is formed to build and operate transmission facilities, the Corporation's interest would be convertible into equity or debt of such company. Alternatively, under certain circumstances, the Corporation's investment may be repaid.

Energy resource ventures

The Corporation is involved in a number of oil and gas exploration and development ventures in the frontier (Hudson Bay) and on provincial lands. Substantially all of these activities are conducted on a joint venture basis.

The Corporation has outstanding commitments of approximately \$25.8 million (1985 - \$21.2 million). The funding of these commitments will be reduced by PIP grants to be received by the Corporation. The Corporation is eligible for maximum PIP grants of 80 per cent of expenditures for the exploration for oil and gas in the frontier areas of Canada and 35 per cent for exploration on provincial lands.

Energy technology ventures

The Corporation has invested in energy technology ventures of various types, many of which are in the development stage. These investments are typically in the form of a minority equity interest or debt.

Outstanding commitments to investees amount to \$3.9 million (1985 - \$3.8 million).

4. GOVERNMENT ASSISTANCE

The Corporation received government assistance which is applied to reduce certain costs as follows:

	1984	1985
	(000's)	
Interest expense on notes due to Sun Note Corporation	\$ 41,304	\$ 45,585
Other investments	\$ 3,199	\$ 2,668

5. LONG-TERM DEBT

	1984	1985
	(000's)	
Notes due to Sun Note Corporation	\$276,250	\$292,500
Due to Treasurer of Ontario	325,000	325,000
	601,250	617,500
Less portion due within one year	16,250	16,250
	\$585,000	\$601,250

The notes due to the Sun Note Corporation are payable in 20 semi-annual instalments, which commenced on June 15, 1982, \$8,125,000 for each of the first ten instalments and \$24,375,000 for each of the remaining ten instalments. Interest is payable semi-annually at the rate 14.357 per cent. The Treasurer of Ontario has stated that it is the intention of the Government of Ontario to ensure the Corporation has sufficient funds to pay the notes.

The amount due to the Treasurer of Ontario is a non-interest-bearing demand loan. It is not the intention of the Treasurer of Ontario to demand payment of the loan in the forthcoming year.

Interest of \$41,304,000 on long-term debt was incurred during the year and recovered by way of assistance from the Government of Ontario.

6. SHARE CAPITAL

	1984	1985
	(000's)	
Share capital		
Authorized		
An unlimited number of common shares		
20,000,000 non-voting special shares		
Issued		
2,000,000 common shares	\$100,000	\$100,000
Less		
362,578 (1983 - 915,888) common shares held in treasury, at cost	(18,129)	(45,794)
	\$ 81,871	\$ 54,206

During 1984, 553,310 shares held in treasury were sold for cash of \$27,665,500 including 440,000 shares sold pursuant to a five-year agreement signed in 1983 in which the Corporation's shareholder agreed to purchase out of appropriated funds \$23 million of equity in the Corporation for each of the years 1983-1987 inclusive.

7. CONTINGENT LIABILITY

One of the Corporation's subsidiaries is contingently liable as guarantor of one joint venture's bank indebtedness and another joint venture's performance bond guarantees up to a maximum of approximately \$2.3 million.

8. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

9. SUBSEQUENT EVENT - SUNCOR INC. INVESTMENT

In a judgement dated January 21, 1985, the Court of Queen's Bench of Alberta found in favour of Suncor Inc. in its dispute with Norcen International Limited ("Norcen"), a subsidiary of Norcen Energy Resources Limited. The issue in dispute was whether Suncor Inc. has an obligation to pay a sublease royalty to Norcen on compensation payments under the Federal Energy Administration Act in 1979 and subsequent years. Since the judgement may be appealed, Suncor Inc. and this Corporation have decided not to account for its financial impact to December 31, 1984, estimated to be \$30 million after tax, until the outcome is no longer subject to uncertainty. The Corporation's proportionate share of this contingent asset amounts to \$7.5 million.

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